



AUDITOR - GENERAL  
SOUTH AFRICA

The accounting officer  
Govan Mbeki Local Municipality  
Private Bag X 1017  
Secunda  
2302

14 December 2018

Reference: 03014REG17-18

Dear Sir

**Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Govan Mbeki Local Municipality for the year ended 30 June 2018**

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (MFMA)
2. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
3. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
4. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
  - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
  - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.
5. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
6. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Izak van der Walt



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# Report of the auditor-general to the Mpumalanga Provincial Legislature and the council on the Govan Mbeki Local Municipality

## Report on the audit of the financial statements

### Disclaimer of opinion

1. I was engaged to audit the financial statements of the Govan Mbeki Local Municipality set out on pages xx to xx, which comprise the appropriation statement, the statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. I do not express an opinion on the financial statements of the municipality. Because of the significance of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

### Basis for disclaimer of opinion

#### Service charges

3. The municipality did not account for service charges as required by *GRAP 9, Revenue from exchange transactions*. This resulted in service charges being overstated by R155 856 864. This had an impact on the deficit for the period.
4. I was unable to obtain sufficient appropriate evidence because the municipality did not have adequate systems to bill customers for services rendered. I could not confirm service charges by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to service charges stated at R1 122 050 512.

#### Payables from exchange transactions

5. I was unable to obtain sufficient appropriate audit evidence for payables from exchange transactions, as the municipality did not have adequate controls to maintain records for payables from exchange transactions. I was unable to confirm the amount owed by the municipality by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to payables from exchange transactions stated at R877 289 887 in note 19 to the financial statements.

#### Property rates

6. The municipality did not accrue for property rates as required by *GRAP 23, Revenue from non-exchange transactions*. Consequently, both property rates and receivables from non-exchange transactions were understated by R317 658 917. Additionally, there was an impact on the deficit for the year and on the accumulated surplus.



### Employee-related costs and remuneration of councillors

7. I was unable to obtain sufficient appropriate audit evidence for employee-related costs, as the municipality did not have adequate controls to maintain records for employee-related costs and the remuneration of councillors. I was unable to confirm or verify by alternative means employee cost of R363 369 801 and remuneration of councillors of R16 172 374 in the statement of financial performance. Consequently, I was unable to determine whether any adjustments were necessary to employee-related costs and the remuneration of councillors.

### Consumer debtors

8. The municipality did not record all amounts billed to consumer debtors as required by GRAP 104, *Financial instruments*, which resulted in consumer debtors being understated by R163 424 908. Consequently, revenue from exchange transactions was understated by this amount.
9. Furthermore, I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as consumer debtors in note 12 to the financial statements, as the municipality did not have adequate internal controls. I was unable to confirm the consumer debtors by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to consumer debtors stated at R266 758 272 in the financial statements.

### Value-added tax (VAT) receivable

10. The municipality did not have adequate internal controls to maintain records of VAT receivable accounts. This resulted in the VAT receivable being understated by R270 015 022.
11. Furthermore, I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as the VAT receivable, as the municipality did not have adequate internal controls to reconcile the VAT control accounts. I was unable to confirm the VAT receivable by alternative means. Consequently, I was unable to determine whether any adjustments were necessary relating to the VAT receivable of R142 477 586 disclosed in the financial statements.

### Bank overdraft

12. I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as the bank overdraft, as the municipality did not have adequate internal controls to reconcile the cash and cash equivalent accounts. I was unable to confirm the bank overdraft by alternative means. Consequently, I was unable to determine whether any adjustments were necessary relating to the bank overdraft of R109 283 688 disclosed in the financial statements.

### Debt impairment

13. I was unable to obtain sufficient appropriate audit evidence for debt impairment, as the municipality failed to fully implement its debt-collection policy. I was unable to confirm the impairment by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to receivables stated at R209 064 564 in the statement of financial performance.

### Contracted services

14. I was unable to obtain sufficient appropriate audit evidence for contracted services, as the municipality did not have adequate controls to maintain records for contracted services. I was unable to confirm contracted services by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to contracted services stated at R81 058 056 in the statement of financial performance.

### General expenses

15. The municipality did not recognise all general expenses in accordance with GRAP 1, *Presentation of financial statements*, as I could not verify that all transactions were recorded in the general ledger. Consequently, general expenses was understated by R64 614 696 and additionally there was an impact on the deficit for the period.
16. I was unable to obtain sufficient appropriate audit evidence for general expenses, as the municipality did not have adequate controls to maintain records for general expenses. I was unable to confirm these transactions by alternative means.
17. Consequently, I was unable to determine whether any adjustments were necessary to general expenses stated at R115 218 365 in the statement of financial performance.

### Unauthorised expenditure

18. The municipality incorrectly calculated unauthorised expenditure as disclosed in note 49 to the financial statements, as required by section 125(2)(d) of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA). The municipality overstated unauthorised expenditure by R83 393 344.

### Irregular expenditure

19. The municipality did not include all irregular expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. This was due to payments made in contravention of the supply chain management (SCM) requirements, which resulted in irregular expenditure being understated by R45 795 535 (2016-17: R31 354 302).



20. In addition, I was unable to obtain sufficient appropriate audit evidence to confirm the irregular expenditure included in the notes to the financial statements, as sufficient appropriate audit evidence was not provided that investigations had been performed to determine the extent of the irregular expenditure. I was unable to confirm this by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the irregular expenditure stated at R324 174 846 (2016-17: R266 085 897) in the financial statements.

#### Interest received on outstanding debtors

21. I was unable to obtain sufficient appropriate audit evidence for interest from outstanding debtors, as the municipality did not have adequate controls to maintain records for interest received on outstanding debtors. I was unable to confirm the interest revenue raised by the municipality by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to interest received from outstanding debtors stated at R41 597 307 in the financial statements.

#### Long-term receivables

22. I was unable to obtain sufficient appropriate audit evidence for long-term receivables, as the municipality did not have adequate internal controls to maintain records of gross long-term receivables. I was unable to confirm the amount owed by debtors by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to long-term receivables stated at R43 435 445 in note 8 to the financial statements.

#### Property, plant and equipment

23. The municipality did not determine the recoverable amount for property, plant and equipment, as required by GRAP 21, *Impairment of non-cash generating assets*. I was unable to determine the impact on the net carrying amount of property, plant and equipment, as it was impracticable to do so. Consequently, there was an impact on the deficit for the period and on the accumulated surplus.
24. Furthermore, I was unable to obtain sufficient appropriate evidence that all land in the name of the municipality had been recorded, due to adequate systems not being in place. I was unable to confirm these assets by alternative means.
25. Consequently, I was unable to determine whether any adjustments were necessary to property, plant and equipment of R1 878 462 498 (2016-17: R1 986 203 612) disclosed in the financial statements. Furthermore, I was unable to determine whether further adjustments were required to the deficit for the year and the accumulated surplus.

### Total revenue and expenditure

26. Total revenue and expenditure was materially misstated by R15 682 677 due to the cumulative effect of individually immaterial uncorrected misstatements in the following items:

- Incidental income stated at R13 309 558 was overstated R13 003 015.
- Insurance income stated at R14 440 988 was understated by R493 047.
- Bulk purchases stated at R820 606 852 was overstated by R2 353 035.
- Finance costs stated at R92 620 220 was understated by R7 250 602.
- Loss on sale of assets stated at R18 355 451 was overstated by R9 859 426.
- Fair value adjustments stated at R725 000 was understated by R1 789 150.

27. Due to the misstatements of the the following, I was unable to obtain sufficient appropriate evidence and to confirm total revenue/expenditure by alternative means:

- Government grants and subsidies of R1 690 324 as included in the disclosed balance of R293 386 666.
- Consumables of R3 920 900 as included in the disclosed balance of R15 427 738.

28. Consequently, I was unable to determine whether any further adjustments were necessary to total revenue and expenditure.

### Emphasis of matters

29. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### Restatement of corresponding figures

30. As disclosed in note 45 to the financial statements, the corresponding figures for 30 June 2017 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2018.

### Material losses – electricity

31. As disclosed in note 52 to the financial statements, material electricity losses of 276 144 514 kilowatts (2016-17: 281 624 734 kilowatts) were incurred, which represented 47,75% (2016-17: 48%) of the total electricity purchased.

### Material losses – water

32. As disclosed in note 52 to the financial statements, material water losses of 8 237 851 kilolitres (2016-17: 9 997 257 kilolitres) were incurred, which represented 27,37% (2016-17: 32%) of the total water purchased.



### **Fruitless and wasteful expenditure**

33. As disclosed in note 50 to the financial statements, the municipality incurred fruitless and wasteful expenditure of R82 172 966, as it did not pay suppliers within 30 days as well as penalties levied by the South African Revenue Service on late returns.

### **Other matter**

34. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### **Unaudited disclosure notes**

35. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

### **Responsibilities of the accounting officer for the financial statements**

36. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the MFMA, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
37. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

### **Auditor-general's responsibilities for the audit of the financial statements**

38. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



## Report on the audit of the annual performance report

### Introduction and scope

39. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
40. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators/measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
41. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priority presented in the annual performance report of the municipality for the year ended 30 June 2018:

Development priorities	Pages in the annual performance report
KPA 2: sustainable physical infrastructure and improved customer care services	xx – xx

42. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
43. The material findings in respect of the usefulness and reliability of the selected development priority are as follows:

## KPA 2: sustainable physical infrastructure and improved customer care services

### Various indicators

44. The reported achievement in the annual performance report did not agree to the supporting evidence provided for the indicator listed below. The supporting evidence provided indicated that the achievement of this indicator was as follows:

Indicator description	Reported achievement	Audited value
% compliance to quality of effluent water(green)	56,57%	78,27%

In addition, the indigent application forms could not be traced to the indigent register for the following indicator:

Indicator description	Projected misstatement
Number of indigent households provided with access to basic services	36%

### Number of VIP toilets converted to Waterborne Sanitation by 31 March 2018

45. The achievement for the target '500 x VIP toilets converted to waterborne sanitation by 31 March 2018' reported in the annual performance report was '529 VIP toilets converted to waterborne'. However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of '240 VIP toilets converted to waterborne'.

### Percentage% Completion of Emzinoni bulk water supply

46. The planned indicator and target were 'Completion of Emzinoni bulk water supply', but the reported achievement referred to was 'Completion of refurbishment of Leandra WWTW'.

### Percentage% Completion of Emzinoni bulk water supply

47. The planned indicator and target were 'Completion on Refurbishment of Leandra WWTW', but the reported achievement referred to was 'Completion of bulk Emzinoni bulk water supply'.

### Number of households receiving a weekly refuse removal service

48. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the target '60100 households receiving a weekly refuse removal service by 30 June 2018'. This was due to the report provided not including the details of the households that actually received the service in the current financial period. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of 60 100 households as reported in the annual performance report.



## Various indicators

49. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against the targets listed in the table below as reported in the annual performance report. This was due to management not submitting the required information within two days after a limitation was issued. I was unable to confirm the reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported measures taken to improve performance.

No.	Indicator	Planned target	Reported indicator
1.	Percentage % compliance to Quality of effluent water (green)	90 % compliance to Quality of effluent water measured quarterly by 30 June 2018	56,57 % compliance to quality of effluent water
2.	Percentage % compliance with SANS 241	99% water compliance with SANS 241 measured quarterly by 30 June	91 % water compliance with SANS 241 measured.
3.	Percentage(%) reduction of energy losses by June 2018	Reduction in energy losses by 25% at 30 June 2018	0% reduction of energy losses at 30 June 2018
4.	Percentage(%) reduction of water losses by June 2018	Reduction of water losses by 25% at 30 June 2018	16% of water losses recorded as at 30 June 2018
5.	KMs of Paved Road rehabilitated	5.6 km of Paved Roads rehabilitated by 31 December 2017	2,62km of paved road rehabilitated
6.	KMs of Gravel Roads maintained	267km of Gravel Roads Maintained by 30 June	161,44km of gravel roads maintained as at 30 June 2018
7.	Number of indigent households provided with access to basic services	15 000 Indigents household supply with free basic services quarterly 30 June 2018	12819 indigents households supply with free basic services
8.	Percentage% Completion of Emzinoni bulk water supply	100 % Completion of Refurbishment of Leandra WWTW by 30 June 2018	45% completion of refurbishment of leandra WWTW
9.	Percentage% Completion on Refurbishment of Leandra WWTW	100 % Completion of Emzinoni bulk water supply by 30 June 2018	60% completion of bulk Emzinoni bulk water supply.
10.	Number of VIP toilets converted to Waterborne sanitation By 31 March 2018	500x VIP toilets converted to Waterborne sanitation By 31 March 2018	529 VIP toilets converted to waterborne

## Other matter

50. I draw attention to the matter below.

## Achievement of planned targets

51. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 45 to 50 of this report.



## Report on the audit of compliance with legislation

### Introduction and scope

52. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
53. The material findings on compliance with specific matters in key legislation are as follows:

### Annual financial statements, performance report and annual report

54. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not subsequently be provided, which resulted in the financial statements receiving a disclaimer of audit opinion.
55. The annual financial statements were not submitted to the auditor-general for auditing within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.

### Expenditure management

56. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
57. An adequate management, accounting and information system was not in place to recognise expenditure when it was incurred and to account for creditors, as required by section 65(2)(b) of the MFMA.
58. Reasonable steps were not taken to ensure that the municipality implemented and maintained an effective system of expenditure control, including procedures for the approval and authorisation of the withdrawal of funds, as required by section 65(2)(a) of the MFMA.
59. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred, as indicated in the basis for disclaimer of opinion paragraph.
60. I was unable to obtain sufficient appropriate audit evidence that payments from the municipality's bank account had been approved by the accounting officer, as required by section 11(1) of the MFMA.

61. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R82 172 966, as disclosed in note 50 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest on overdue accounts (mainly Eskom and Rand Water accounts). Fruitless and wasteful expenditure amounting to R74 425 355 and R7 418 284 was incurred on Eskom and Rand Water accounts, respectively.
62. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R229 992 929, as disclosed in note 49 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by the municipality not preparing an adjustment budget during the current financial period as a result of system change challenges, which were reported to the council.

### Revenue management

63. An adequate management, accounting and information system was not in place to account for revenue and debtors, as required by section 64(2)(e) of the MFMA.
64. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.
65. I was unable to obtain sufficient appropriate audit evidence that interest had been charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

### Procurement and contract management

66. Sufficient appropriate audit evidence could not be obtained that all contracts and quotations were awarded in accordance with the legislative requirements, as management could not provide information requested within the required two days.
67. Some goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(a) and (c).
68. Sufficient appropriate audit evidence could not be obtained that bid specifications were unbiased and allowed all potential suppliers to offer their goods or services, as required by SCM regulation 27(2)(a).
69. Some invitations for competitive bidding were not advertised for the required minimum period, in contravention of SCM regulation 22(1) and 22(2). Similar non-compliance was also reported in the prior year.
70. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for the required minimum period, as required by SCM regulation 22(1) and 22(2).

71. Some contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding and quotations, in contravention of SCM regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations. Similar non-compliance was also reported in the prior year.
72. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding and quotations, as required by SCM regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations.
73. Some contracts were awarded through competitive bidding processes that were not adjudicated by the bid adjudication committee. Similar non-compliance was also reported in the prior year.
74. Sufficient appropriate audit evidence could not be obtained that bid adjudication committees were always composed in accordance with SCM regulation 29(2). Similar non-compliance was also reported in the prior year.
75. Some contracts were awarded to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b). Similar non-compliance was also reported in the prior year.
76. Sufficient appropriate audit evidence could not be obtained that contracts were awarded only to bidders who submitted a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year.
77. Sufficient appropriate audit evidence could not be obtained that contracts were only awarded to providers whose tax matters had been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.
78. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act of South Africa, 2000 (Act No. 5 of 2000) (PPPFA). Similar non-compliance was also reported in the prior year.
79. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the PPPFA and its regulations. Similar non-compliance was also reported in the prior year.
80. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders that scored the highest points in the evaluation process, as required by section 2(1)(f) of the PPPFA and the Preferential Procurement Regulations. Similar non-compliance was also reported in the prior year.



81. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding and quotations, as required by the Preferential Procurement Regulations.
82. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders based on pre-qualification criteria that were stipulated in the original invitation for bidding and quotations, in contravention of preferential procurement regulation 4(1) and 4(2) of 2017.
83. Sufficient appropriate audit evidence could not be obtained that tender requirements for contracts above R30 million included a condition for mandatory subcontracting to advance designated groups, as required by preferential procurement regulation 9(1) of 2017.
84. Sufficient appropriate audit evidence could not be obtained that construction contracts were awarded to contractors that were registered with the Construction Industry Development Board (CIDB) in accordance with section 18(1) of the CIDB Act of South Africa, 2000 (Act No. 38 of 2000). Similar non-compliance was also reported in the prior year.
85. Some bid documentation for the procurement of commodities designated for local content and production did not stipulate the minimum threshold for local production and content, as required by preferential procurement regulation 8(2) of 2017.
86. Some commodities designated for local content and production were procured from suppliers who did not submit a declaration on local production and content, as required by the Preferential Procurement Regulations of 2017. Similar non-compliance was also reported in the prior year.
87. Sufficient appropriate audit evidence could not be obtained that all commodities designated for local content and production were procured from suppliers who submitted a declaration on local production and content, as required by the Preferential Procurement Regulations of 2017.
88. Some commodities designated for local content and production were procured from suppliers who did not meet the prescribed minimum threshold for local production and content, as required by preferential procurement regulation 8(5) of 2017.
89. Sufficient appropriate audit evidence could not be obtained that commodities designated for local content and production were procured from suppliers who met the prescribed minimum threshold for local production and content, as required by preferential procurement regulation 8(5) of 2017.
90. The performance of some contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.

91. The contract performance and monitoring measures and methods were not sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA. Similar non-compliance was also reported in the prior year.

### Consequence management

92. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
93. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
94. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

### Other information

95. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and the selected development priority presented in the annual performance report that has been specifically reported in this auditor's report.
96. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
97. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priority presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
98. As a result of the disclaimer of opinion expressed on the financial statements, I do not conclude on material misstatements of the other information relating to the financial statements. I am also unable to conclude whether any other information included in the annual report is materially misstated because I was unable to obtain sufficient appropriate evidence for KPA 2: sustainable physical infrastructure and improved customer care services. If, based on the work I have performed relating to the audit of compliance with legislation, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

## Internal control deficiencies

99. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the disclaimer of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
100. Management did not provide effective leadership based on a culture of honesty, ethical business practices and good governance, as some of the errors and misstatements identified during the audit were not communicated to the auditors even though management was aware of these matters prior to the submission of the annual financial statements.
101. There was an action plan to address internal and external audit issues raised in the prior year audit; however, the action plan was not adequately monitored, as significant issues relating to SCM were not resolved and many repeat findings were raised in the current year.
102. The municipality did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information was accessible and available to support financial and performance reporting, as a lot of material limitations of scope were experienced during the audit.
103. Proper reconciliations of VAT, debtors, creditors, assets, bank and cash, revenue, predetermined objectives and information reported against the listings were not adequately performed, as material misstatements were identified and reported during the audit.
104. An internal audit unit was in place in the current financial period but the unit was not adequately resourced, which contributed to the function not being able to complete the planned engagements within the planned timelines.

## Other reports

105. I draw attention to the following engagement conducted by the integrity management unit of the Office of the Premier that have or could potentially have an impact on the municipality's financial statements, reported performance information and compliance with applicable legislation and other related matters. The report noted does not form part of the opinion on the financial statements or findings on the reported performance information or compliance with legislation.



106. The integrity management unit investigated allegations of irregular expenditure and fraudulent payments to suppliers for services that were not rendered. The investigation was concluded in May 2018 and a report was issued to the accounting officer during June 2018.

*Auditor - General*

Mbombela

14 December 2018



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*